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ABSTRACT

This report presents the Teacher Retirement System of Texas's (TRS's) strategic plan for teacher retirement in the state of Texas for the years 1999-2003. The mission of the TRS is to deliver retirement and related benefits authorized by law for members and their beneficiaries and to prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system. Section 1 of this report presents State of Texas Strategic Elements (state vision, mission, and philosophy regarding education and teaching). Section 2 discusses Internal and External Assessment at TRS: Legislative and Historical Framework, Agency Mission and Philosophy, Core Competencies, Major Challenges, TRS Organizational Structure, Membership Base, Legislative Impact, Fiscal Attributes, Resources, Technological Developments, Summary Statement, TRS Contributions to Texas Priority Goals, and Accomplishments and Commitments. Section 3 presents TRS Strategic Goals (including objectives and strategies). The four appendixes present the Strategic Planning Steering Committee, the TRS strategic planning process, projections of outcomes for 5-year planning horizon, and performance measure definitions. (SM)

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TEACHER RETIREMENT SYSTEM OF TEXAS

Improving Service Into the 21st Century

A Strategic Plan for the Teacher Retirement System of Texas 1999-2003

SP038468

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Improving Service Into the 21st Century

A Strategic Plan for the Teacher Retirement System of Texas 1999-2003

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Submitted on June 15, 1998

Signed _____
Charles L. Dunlap
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James H. (Jim) Simms
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Preface

Improving Service Into the 21st Century is the Strategic Plan for the Teacher Retirement System of Texas (TRS) for fiscal years 1999-2003. This plan continues to build upon the strong foundation of the previous plan, entitled *A New Beginning*, 1997-2001, focusing on the essential core responsibilities of the system—delivery of benefits and management of the trust fund.

During the spring of 1996, the agency's strategic planning team conducted a comprehensive internal and external assessment of the major goals and issues affecting TRS. In more than 60 small group meetings and individual interviews with employees, active and retired members, member associations, board members, state agencies, legislative staff, and other stakeholders, the strategic planning team gained valuable insights into the rewards and challenges of administering the nation's sixth largest public pension fund.

Improving Service Into the 21st Century continues this same commitment. Within the framework of our legislative charter and mission, TRS is meeting the needs of its members. TRS staff members take pride in doing this, and in delivering programs for which it is responsible. In doing so, TRS focuses all of its resources to address the challenges of serving its members well. *Improving Service Into the 21st Century* continues the blueprint for achieving this goal, and for contributing to the prosperity and security of retired Texas public education employees now ... and on into the next century.

A New Beginning established a strong foundation for agency fiscal and management decisions, and for playing a meaningful role in support of the Texas public education system.

TRS Stakeholders

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State of Texas
Strategic Elements

STATE VISION

"Together, we can make Texas a beacon state:

a state where our children receive an excellent education so they have the knowledge and skills for the next century;

a state where people feel safe in their communities and all people know the consequences of committing a crime are swift and sure;

a state where our laws encourage jobs and justice;

a state where each citizen accepts responsibility for his or her behavior; and

a state where our greatest resource–our people–are free to achieve their highest potential.

I envision a state where it continues to be true that what Texans can dream, Texans can do."

Governor George W. Bush
February, 1998

STATE MISSION

The mission of Texas state government is to support and promote individual and community efforts to achieve and sustain social and economic prosperity for its citizens.

STATE PHILOSOPHY

State government will be ethical, accountable, and dedicated to serving the citizens of Texas well. State government will operate efficiently and spend the public's money wisely.

State government will be based on four core principles that will guide decision-making processes.

Limited and Efficient Government

Government cannot solve every problem or meet every need. State government should do a few things and do them well.

Local Control

The best form of government is one that is closest to the people. State government should respect the right and ability of local communities to resolve issues that affect them. The state must avoid imposing unfunded mandates.

Personal Responsibility

It is up to each individual, not government, to make responsible decisions about his or her life. Personal responsibility is the key to a more decent and just society. State employees, too, must be accountable for their actions.

Support for Strong Families

The family is the backbone of society and, accordingly, state government must pursue policies that nurture and strengthen Texas families.

Texas state government should serve the needs of our state but also be mindful of those who pay the bills. By providing the best service at the lowest cost and working in concert with other partners, state government can effectively direct the public's resources to create a positive impact on the lives of individual Texans. The people of Texas expect the best, and state government must give it to them.

State Priority Goals that Apply to TRS

TRS has considered this plan and its mission in relation to the state's vision and goals. *Improving Service Into the 21st Century*, implemented in accordance with the trustees' fiduciary duties, supports the following priority goals.

EDUCATION

Public Schools

Priority Goal: To ensure that all students in the public education system learn to read at grade level by the end of the third grade, continue reading at grade level, demonstrate exemplary performance in foundation subjects, and acquire the knowledge and skills needed to be responsible and independent Texans.

EDUCATION

Higher Education

Priority Goal: To provide an affordable, accessible, and high quality system of higher education that prepares individuals for a changing economy and workforce, and furthers the development and application of knowledge through research and instruction.

HEALTH AND HUMAN SERVICES

Priority Goal: To reduce dependence on public assistance through an efficient and effective system that promotes the health, responsibility, and self-sufficiency of individuals and families.

ECONOMIC DEVELOPMENT

Priority Goal: To foster economic opportunity, job generation, and capital formation by providing quality business services, preparing the workforce for productive employment, and supporting infrastructure development.

GENERAL GOVERNMENT

Priority Goal: To support effective, efficient, and accountable state government operations.

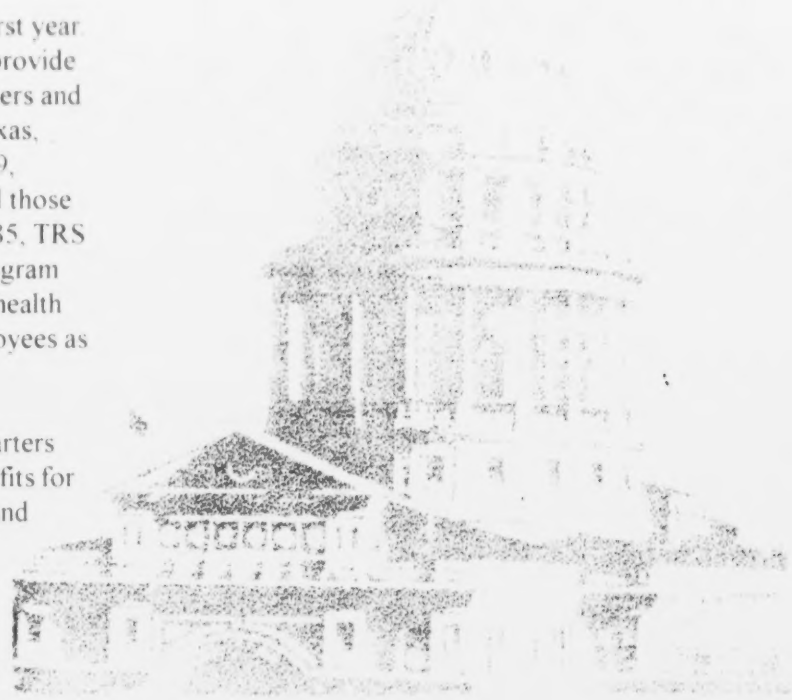
Internal and External Assessment at TRS

Legislative & Historical Framework

More than 70 years ago, a group of Texas teachers had a profound dream—a program to provide retirement benefits to educators throughout the state. The teachers of Texas expressed their desire for a statewide system, and the legislature responded by proposing an amendment to the Constitution of Texas on the November 1936 ballot. Voters approved the amendment and, with enabling legislation passed in 1937, the Teacher Retirement System of Texas was formed.

Over 38,000 eligible teachers participated that first year. The original responsibility of the system was to provide service and disability retirement benefits to teachers and administrators of the public school systems of Texas, including institutions of higher education. In 1949, legislation expanded membership eligibility to all those employed by public education institutions. In 1985, TRS was assigned to administer a health insurance program for public school retirees, and in 1995 to offer a health insurance program for active public school employees as well.

Article 16, Section 67 of the constitution now charters the system to provide retirement and related benefits for those employed by the public schools, colleges, and universities supported by the State of Texas.



Agency Mission & Philosophy

TRS Mission

The mission of the Teacher Retirement System of Texas is:

1. to deliver retirement and related benefits authorized by law for members and their beneficiaries, and

2. to prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.

TRS Philosophy

We are dedicated to professional, accurate, timely, and cost-effective delivery of services and benefits to members and annuitants. We are sensitive, caring, and fair to those we serve and to our co-workers. We take pride in the work we perform and strive to continuously improve. We are open, responsive, and ethical in the conduct of business with members, annuitants, government officials, and the public.

Core Competencies

As an organization, TRS has four core competencies:

- Benefit delivery
- Investment management
- Communication with stakeholders (retired and active members, state leadership, taxpayers, employees, and trustees)
- Workforce development

Benefit Delivery

TRS administers an array of benefits for public education employees throughout the state, including retirement, disability, death, and health benefits programs. The system is committed to delivering these services in an efficient and professional manner.

Investment Management

TRS manages monies held in trust for its members. TRS is presently the seventh largest defined benefit pension fund in the nation, based on asset size. The fund is established through contributions from the State of Texas, TRS members and investment returns. Investment returns for the 1997 fiscal year provided more than 85% of TRS revenues.

Communication With Stakeholders

Consistent with Texas state government philosophy, TRS recognizes that it is up to each individual to make responsible retirement decisions. As subject-matter experts for a number of complex programs, TRS staff are responsible for providing accurate information about the system to all interested parties, including legislative and governing bodies, school districts and institutions of higher education, active and retired members, and the public. TRS's intention is to enable these stakeholders to make informed decisions related to the system, such as benefit decisions made by the legislature or retirement options selected by members. TRS continues to sharpen its communication focus on benefit delivery and fund management.

Workforce Development

In order to provide the level of excellence expected by its stakeholders, TRS must attract, develop, and retain an exceptionally qualified workforce. Such efforts are of particular importance for the system's professional staff.

Major Challenges

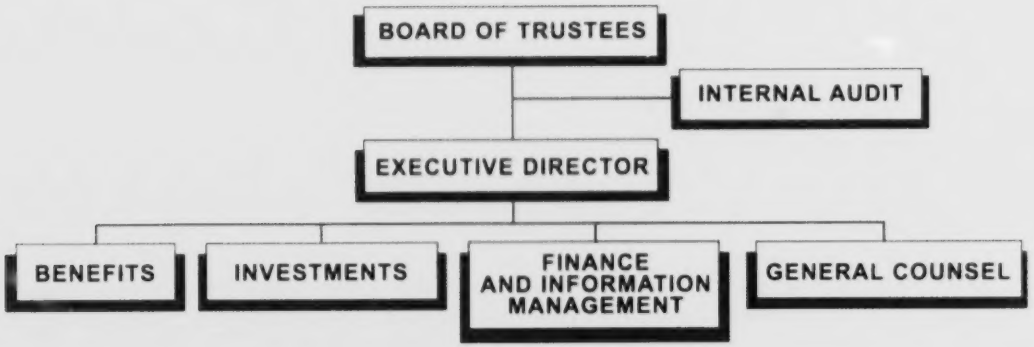
As an organization, TRS faces major challenges, which include:

- Managing significant membership and investment growth.
- Communicating complex pension issues effectively with diverse groups of TRS stakeholders.
- Maintaining a strong technology infrastructure in a cost-effective manner.
- Addressing compensation issues within state guidelines in order to attract and retain the highly qualified staff required to manage and administer the fund effectively.
- Addressing plan design, cost-effective service delivery, and funding issues for the retiree health benefits program.

TRS Organizational Structure

TRS is a state agency governed by a board of trustees appointed by the governor. The executive director, selected by the board of trustees, is the chief executive officer and is responsible for the general administration of the agency. TRS is a centralized organization headquartered in Austin, serving the public education employees of Texas. Approximately 400 combined staff members provide services to TRS stakeholders for both pension and insurance benefits.

Organization of TRS



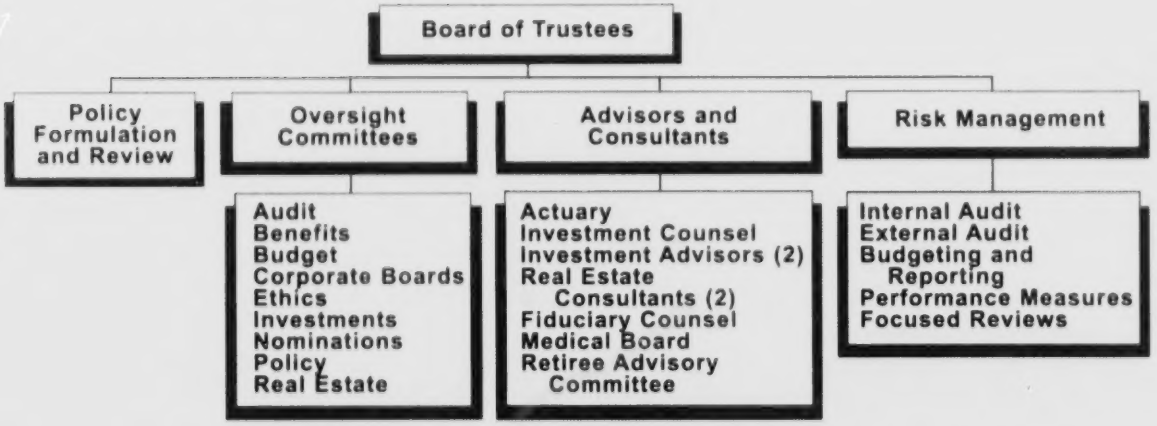
Governance Process

The nine-member board of trustees administers the programs and invests the funds of the system. Board members are appointed by the governor for six-year terms and are confirmed by the Senate. The governor designates the board's presiding officer.

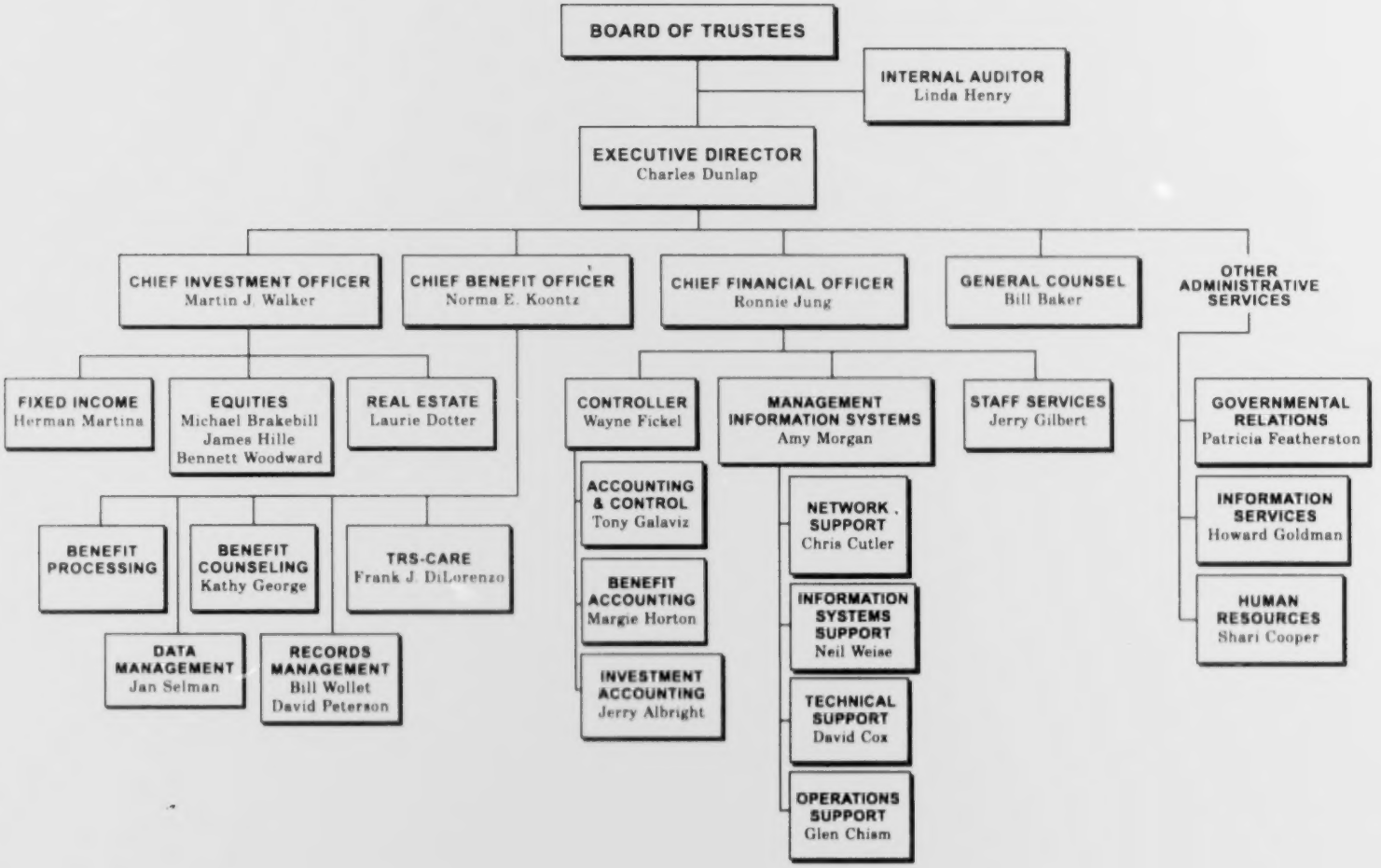
The board appointments made by the governor include:

- Three direct appointments of persons who have demonstrated financial expertise and are not active or retired members of the system.
- Two appointments from nominations offered by the State Board of Education. The individuals nominated must have demonstrated financial expertise, have worked in private business or industry, and have broad investment experience, preferably in investment of pension funds.
- Two appointments of active public school employees, selected from lists of three nominations by active public school employees.
- One appointment of an active higher education member, selected from a list of three nominations made by active members in higher education.
- One appointment of a retired member, selected from a list of three nominations by retired members.

Governance of TRS



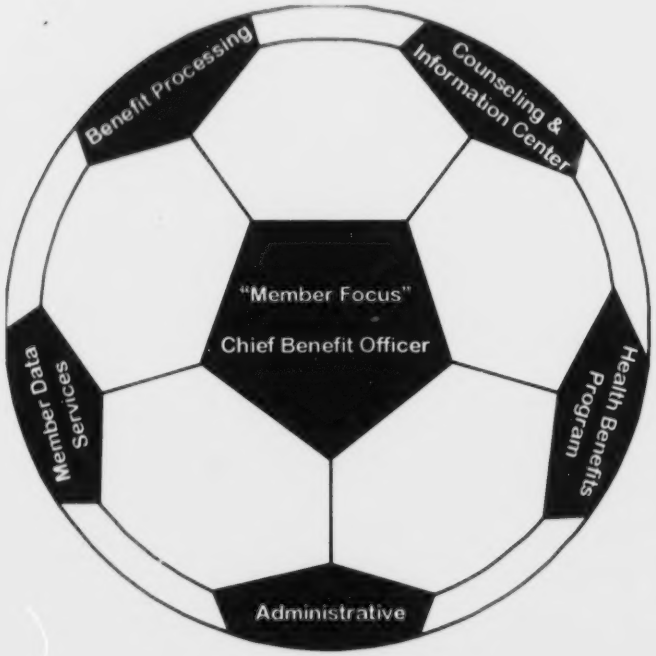
TRS Organization Chart



Key Organizational Changes

Benefit Services Reengineering Effort. An initiative to reorganize and reengineer TRS service delivery processes continues. TRS will continue to seek opportunities throughout the system to strengthen performance, establish accountability, and promote cost effectiveness.

Benefit Services Organizational Chart



What Is New at TRS?

Benefit Services Transformation (BeST) Project launched 3/1/97 to:

- Strengthen the capabilities of MIS.
- Implement integrated relational database.
- Develop agencywide technical architecture.
- Design new member enrollment, district reporting, benefit processing and disbursement processes.
- Build supporting computer systems.

Contracted on 5/1/98 to convert microfiche records to electronic images.

Implemented the interactive voice-response (IVR) unit to provide members with 24-hour access to account and benefit information and enable them to make routine service requests.

Created a TRS Web site to further promote accurate, consistent, and faster access to TRS information.

Membership Base

Membership Demographics

TRS currently serves approximately 690,000 active members and 158,000 retired or disabled members.

The Teacher Retirement System of Texas provides benefits to employees who are involved in the Texas education system, including both higher and public education. The total active membership comprises not only public school teachers, but it also includes school and district administration staff, food service personnel, maintenance staff, transportation employees, college and university faculty and staff, and certain other state agency employees.

Size of Membership. TRS's membership will continue to grow, in both the number of active public school employees and retired members. Projections show that the number of public school employees in the state will rise with the population growth among school-age children.

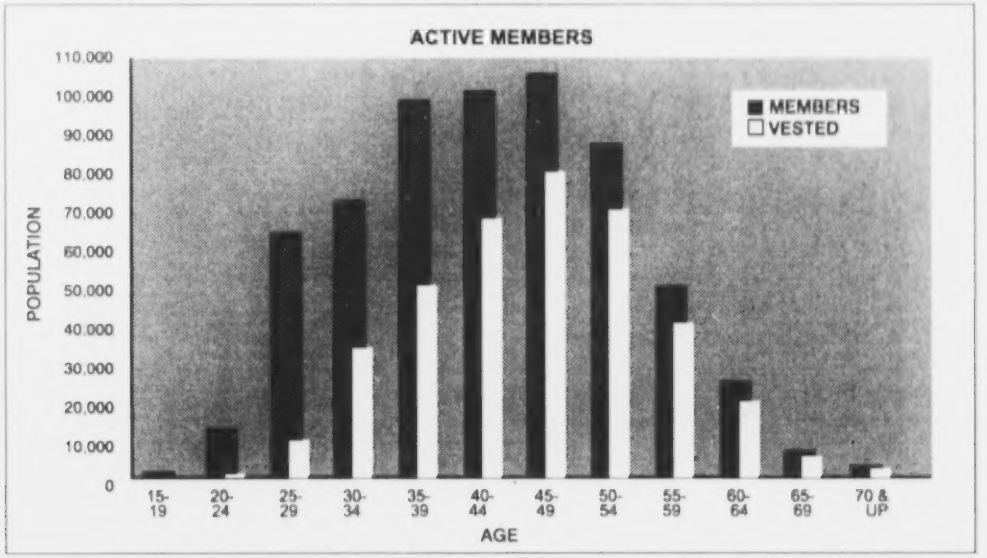
The retired membership population is expected to rise significantly due to the growing number of members approaching retirement age. As a result of this trend, the longer life expectancy of members, and the lower age requirement for retirement, the number of retired members is projected to increase. The rate of increase of annuitants is expected to exceed the rate of increase in active membership, which will cause the ratio of active to retired members to fall slightly.

Significant Demographic & Economic Trends

Actuarial data suggest that the probability of an employee retiring doubles when the individual reaches the minimum retirement age. In addition, a number of districts offer early retirement incentive programs. The increase in retirements due to early incentives may be offset by the effects of the Deferred Retirement Option Plan (DROP) enacted in the last legislative session.

The growing number of members in the retirement system is an important factor. However, other important characteristics—including age distribution and compensation trends—will also have a significant impact on the system. The current active member age distribution is heavily weighted in the 35-49 year age groups. These factors are considered in the system's long-term actuarial studies.

Compensation and Economic Trends. Compensation trends have a significant impact on the retirement system. Within guidelines set by the State Board of Education, salary and other compensation factors are generally determined by the 1,195 individual school districts, colleges, and state agencies whose employees participate in the system. A member's average salary is a key element of the benefit formula which establishes the amount of annuity to be paid throughout the retiree's lifetime.



Other factors determined by the employer that affect retirements include policies on year-round schools, sick leave, employment after retirement, and reduction in the number of in-service days. TRS monitors such developments closely to ensure that it responds to changes as they occur. Changes in the economy also affect the number of members who elect to retire and those who decide to withdraw from the system if they change employment.

Although salary levels and employer contribution rates have considerable impact on the system, the balance between these and other factors (such as investment performance and benefit architecture) determines the fund's actuarial solvency. TRS is actuarially sound, with a low unfunded actuarial liability.

Summary of Reporting Entities

August 31,1997

Public Schools	1,092
Junior Colleges	51
Senior Colleges	39
Medical Schools	8
Other State Agencies	5
TOTALS	1,195

Special Service Needs. TRS must consider the special needs of its members in order to serve them effectively. Some of the factors TRS takes into account in providing service include:

- Meeting the needs of persons who require information in a language other than English
- Meeting the needs of persons with a disability, such as mobility, sight, or hearing impairment
- Offering information in a manner that is user-friendly and accessible to an aging population
- Applying technological innovations for information services in a manner that meets the needs of both users who are technologically proficient and of those who are not

TRS's Role in the Retirement Process. In the private sector, each employer typically provides retirement option counseling to its own retiring employees. In the Texas system, TRS is charged with providing this service rather than each reporting entity establishing its own program. This approach has advantages, such as ensuring consistency and accuracy of the information communicated. It also requires a substantial allocation of TRS staff and budget resources in order to provide the needed services.

TRS provides:

- Informational materials
- Computer disks for estimates
- Individual counseling in the field and at the home office
- Speakers for groups of employees
- Convention representatives to answer questions
- Telephone counseling services
- Interactive voice-response unit
- Toll-free information center
- Comprehensive Web site

Geographic Impact. The geographic diversity of our membership also affects the manner in which TRS delivers services. While the majority of active and retired TRS members (and beneficiaries) reside in Texas, the system serves members in all 50 states as well as in other countries. This diverse service area means that travel (in-state), postage, and long distance charges increase as the diversity increases.

Public Perception

TRS places great importance on allocating appropriated resources in a manner to maximize member satisfaction with quality of service. In order to gauge levels of member satisfaction, the system conducted a member satisfaction survey in 1997. The survey was mailed out to 2,000 randomly selected TRS retirees and 2,750 active members.

Survey results indicated that most retirees and active members were satisfied with TRS services. Retiree satisfaction levels were particularly high with approval ratings (somewhat or very satisfied) ranging from 92 to 95 percent, based on the service in question. Retirees found TRS publications to be accurate, useful and easy to understand. Overall, their approval ratings on various TRS services were 90 percent or higher. Approval ratings of benefit counselors, benefit presentations, the TRS call information center, the annuity payroll department and the timeliness and accuracy of TRS benefit payments ranged between 92 and 95 percent.

Active members' approval ratings of these services ranged between 65 and 84 percent. Positive, active members' ratings of TRS services were typically lower than those of retirees. In some cases, however, active members indicated a lower utilization of agency services. Their answers also appear to reflect less interest in some retirement-related issues, which may be linked to the amount of time separating them from retirement. In response to these survey results, the agency will customize its communication efforts to address the interests of its different membership segments.

New options for communicating with active and retired members were also explored in the survey. The Internet proved popular with nearly half of the active members surveyed. However, a much smaller number of retirees expressed interest in this channel of communication. Both groups found videotapes, audiotapes and CD-ROM to be attractive options.

Building upon this survey and other public comments, TRS is expanding customer survey efforts to increase its effectiveness in responding to members' needs.

Legislative Impact

Federal laws and regulations have a substantial impact on TRS, although TRS does not receive federal funds and is not directly regulated by the federal government. Several federal laws influenced the development of TRS benefits, as summarized below.

Internal Revenue Code

The Internal Revenue Code (IRC) has had a profound influence on TRS because, under the IRC, a pension plan may obtain advantageous tax treatment for its participants and for the plan itself by maintaining "tax-qualified" status under Section 401(a). Advantages to a qualified plan include deferred taxation of participants' contributions and accrued benefits, favorable tax treatment of certain distributions to participants, and tax exemption of the income of the pension trust fund. The importance of remaining tax-qualified is recognized by Texas law (Section 825.506, Texas Government Code).

The Internal Revenue Service (IRS) has determined that TRS is a qualified plan. Because of changes in both the IRS Code and TRS Law, TRS will soon ask for another ruling on this question.

Major qualification requirements include:

- Pension plan assets must be held in trust and the plan must be administered for the exclusive benefit of the plan participants.
- The amount of a participant's retirement benefit is restricted by IRC, Section 415.

Qualification requirements also affect the withdrawal of member contributions, the method in which benefits are paid, and several other provisions of the plan.

ERISA

The Employees Retirement Income Security Act of 1974 (ERISA) imposes funding and plan design restrictions on pension plans but exempts governmental plans from its provisions. However, ERISA often provides guidance to state pension plans on funding, benefit, or fiduciary issues.

Recent Federal Activities

Congress has recently excepted public plans from non-discrimination testing. Legislation to alleviate inequities resulting from the Section 415 limitation on benefits and contributions has also passed. The TRS-Care health benefits program for retirees is affected by ongoing efforts of Medicare to reduce benefits to its participants. Such efforts shift costs to health care providers, who then pass those costs to plan participants.

Other Legal Issues

Impact of Court Cases. Many public retirement systems in other states face significant litigation. Resolving such cases requires significant investment of time from the system's staff, outside counsel, and governing board. While TRS does experience some litigation requiring the use of legal counsel, the system currently has no cases pending that might have a significant adverse financial impact.

TRS and TRS-Care monitor litigation across the country that could establish important precedents concerning benefits. Awareness of such cases is important because of the standards they establish for retirement plans and health insurance programs.

Anticipated State Statutory Changes. Major state statutory changes affecting the TRS trust fund, benefit plan design or its operations are not anticipated.

Future funding of the TRS-Care health benefits program for retirees will be a challenge, as the fund will be depleted in fiscal year 2001 unless current funding provisions are changed.

Future funding of the TRS-Care health benefits program for retirees will be a challenge, as the fund will be depleted in fiscal year 2001 unless current funding provisions are changed.

Fiscal Attributes

The formula for effectively administering the system in the face of changing demographic trends is simple to illustrate, but a challenge to accomplish.

Administering the System

Large, growing membership + Aging membership + Small organization	=	Need for strong governance + Realistic cost containment + Expanded use of technology

Pension Funding Sources and Uses

Sources of Revenue. A pension fund has five basic sources of revenue.

- Member contributions
- State contributions
- Employer reimbursements
- Earnings on investments
- State appropriations for administration

Uses of Funds. There are also four basic uses of funds:

- Benefit payments
- Refunds
- Investments
- Administrative expenses

The sources and uses of funds related to investment activities are considered **internally** generated cash flow. All other sources and uses are **external**. External cash flow is a measure of a fund's ability to grow without relying on investment income or redemptions to fund current liabilities.

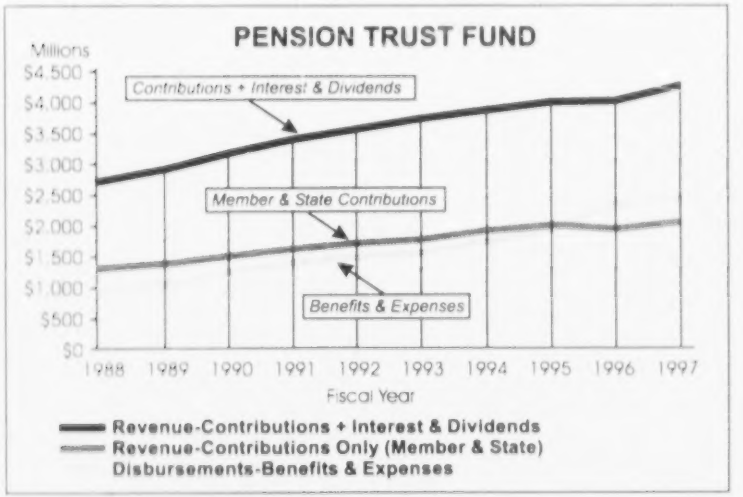
The sum of member and employer contributions minus the sum of benefit payments, refunds, and administrative expenses equals the external cash flow of the pension fund. When the contributions exceed expenses, the cash flow is positive. Positive external cash flow contributes to the growth of the fund by allowing all investment earnings to be reinvested immediately.

(Contributions + Reimbursements + Administrative Appropriations)
−
(Benefit Payments + Refunds + Administrative Expenses)
=
External Cash Flow of the Pension Fund

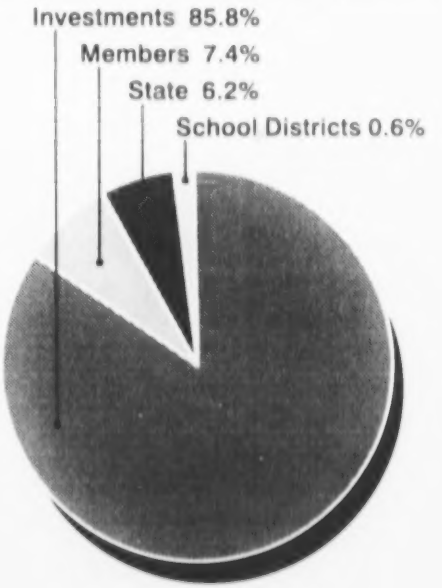
However, moving from a positive to a negative external cash flow is a normal occurrence for a maturing pension fund. Pensions are prefunded because this shift will occur. The primary implication of a negative external cash flow is that when investment earnings are used to pay benefit costs, they cannot be reinvested.

TRS's Cash Flow

TRS's total cash flow from contributions, interest and dividend income, and investment net gains are far greater than the system's current cash needs. It is expected that the cash generation capacity of the trust, including state and employee contributions will continue to be sufficient to fund cash requirements for the foreseeable future.



Sources of Income - Fiscal Year 1997



Additions to Plan Net Assets during fiscal year 1997 exceeded deductions by $12.1 billion, underlining the financial strength of the pension fund. The strength of financial markets during 1997 provided many opportunities for investment gains.

Statement of Changes in Plan Net Assets
PENSION TRUST FUND

Additions:		**1997**
From Members	$	1,070,235,761
From State		895,085,344
From School Districts		86,940,233
From Investments		12,427,105,285
Other		646,237
TOTAL ADDITIONS	$	14,480,012,860

Deductions:		**1997**
For Benefits	$	2,209,571,246
For Refunds to Members		166,125,695
For Administration		24,468,931
For Employees Retirement System		8,248,161
TOTAL DEDUCTIONS	$	2,408,414,033

Fiscal year 1997 distributions were up 5.0% to $2.4 billion, primarily because of an increase in the retiree population and the effects of ad hoc increases provided by the legislature.

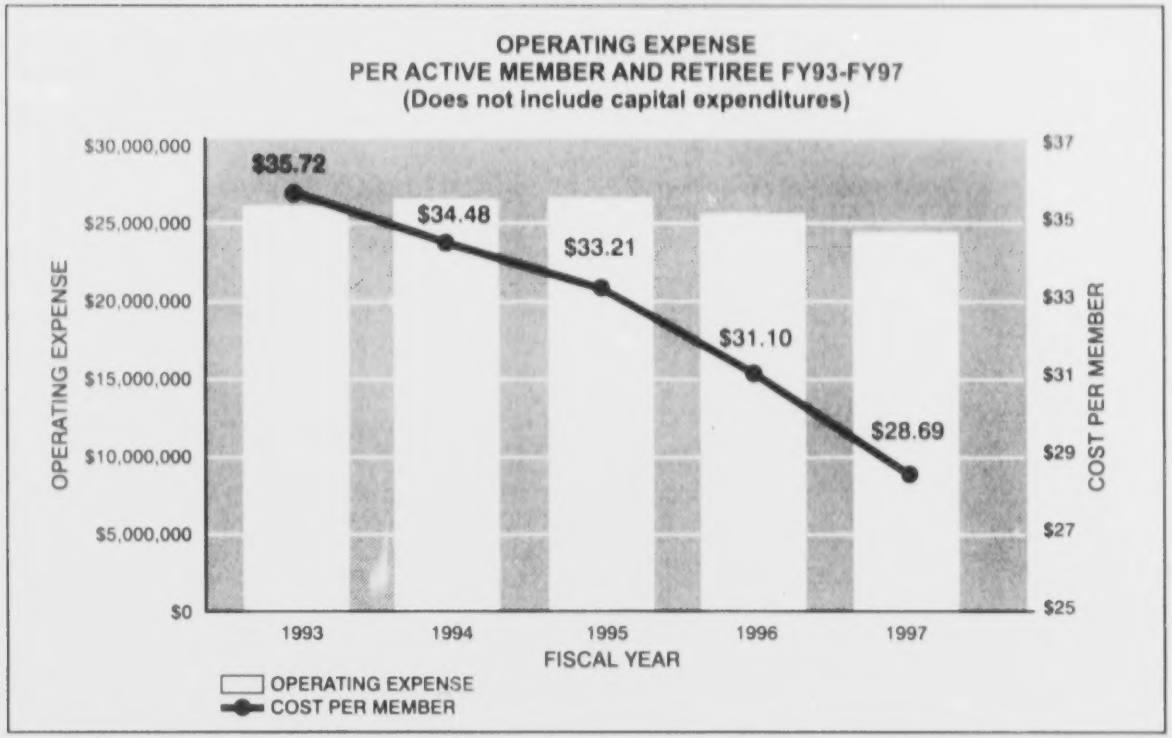
TRS Administrative Budget

The Pension Trust Fund administrative expenses are controlled by an annual budget approved by the board of trustees. Effective for the biennium 1998-99, the State of Texas appropriated from the general revenue fund $23,667,552 for each year of the biennium for TRS administrative operations.

Budget Needs. TRS is committed to maintaining an efficient administration. However, continued growth in membership and in the size of the fund is placing considerable strain on resources, while limiting our ability to meet members' service needs. During the current biennium, projects critical to service delivery and implementing legislative changes have been funded by investment earnings. The referenced projects are primarily technology- and process- related, and have a significant impact on TRS's ability to control its long-range administrative costs. TRS expects to complete the projects by the end of the current biennium or early in the next biennium.

Did You Know . . .

. . . TRS has a low operating budget per total membership ratio. The TRS cost per member is currently less than $29 a year.



Funding for Retiree Health Benefits Program

TRS-Care was first offered as a new service to school district retirees in 1986. At that time, projections indicated that funding for the program would last approximately 10 years. Financial performance of the fund has lengthened its expected life. Nevertheless, current actuarial analysis indicates that funds will be exhausted during fiscal year 2001. Continuation of the program beyond that time will require an increase in funding from existing or new sources.

The TRS-Care fund for retirees receives contributions from the state's General Revenue Fund. Projected state contributions for the 1998 and 1999 fiscal years are $71,808,384 and $75,757,845, respectively. Additional funding sources for the program include active member contributions, retiree contributions for optional and dependent coverage, and investment income.

The board of trustees approves an annual budget controlling the administrative costs of the program.

Revenues and Expenditures

PUBLIC SCHOOL EMPLOYEES GROUP INSURANCE - RETIREES

Revenues:	**1997**
From Active Members	$ 33,808,197
From State	67,616,395
From Retirees	87,657,784
From Investments	16,125,973
TOTAL REVENUES	$ 205,208,349

Expenditures:	**1997**
For Claims	$ 211,354,471
For External Administration	12,880,395
For Internal Administration	1,217,059
TOTAL EXPENDITURES	$ 225,451,925

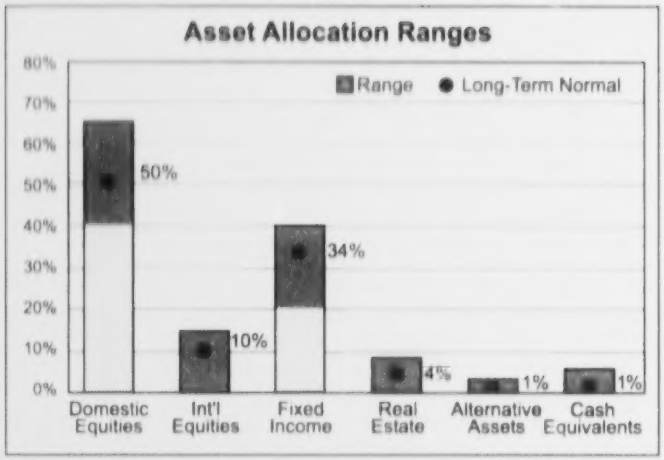
Coverage for Active School Employees. The 74th Legislature authorized TRS to offer health care benefits for active members. Since September 1, 1996, TRS-Care has administered a separate health care program for the active employees of districts which elected to participate. The program is self-supporting, with employing districts and participating employees sharing the cost. Although participation has been disappointing — only three school districts with a total of approximately 215 employees enrolled — TRS remains committed to working with all interested parties to generate a successful plan.

Investments

Objectives. Prudent investment of the funds contributed to the system provides the foundation for achieving the goal of an actuarially sound fund. The TRS investment portfolio is structured to achieve a long-term return that exceeds the assumed actuarial rate of return adopted by the board of trustees and exceeds the long-term rate of inflation by an annualized 3%. The system maintains a long-term investment horizon that allows for investment in various asset classes with cyclical performance such as long maturity bonds, equities, real estate, and alternative assets. Each asset class is reviewed and must be approved by trustees prior to investment.

Composition. To determine the appropriate asset classes and the amount of funds that should be allocated to each class, the board has adopted a policy requiring an asset/liability study be conducted at least every five years. The purpose of the study is to develop an asset allocation standard that meets the investment risk tolerances of the board and which is projected to meet the long-term performance objectives of the fund. By establishing specific asset allocation targets for the fund, TRS ensures diversification and controls risk.

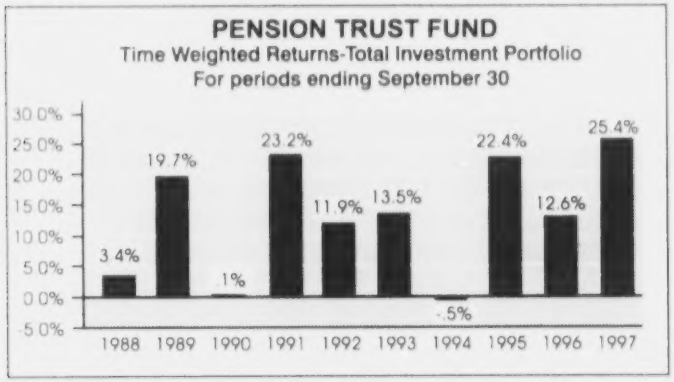
TRS conducted an asset/liability study in 1995. The asset classes and the allocation ranges established are depicted in the following chart.



Performance. The TRS investment policy establishes objectives against which the performance of the total portfolio and each of its components will be measured. Investment performance and portfolio characteristics are calculated and compared to established benchmarks on a quarterly basis. Differences in investment policy, asset allocation strategies, and risk tolerance make comparisons with other public funds less meaningful than comparisons with recognized industry benchmarks.

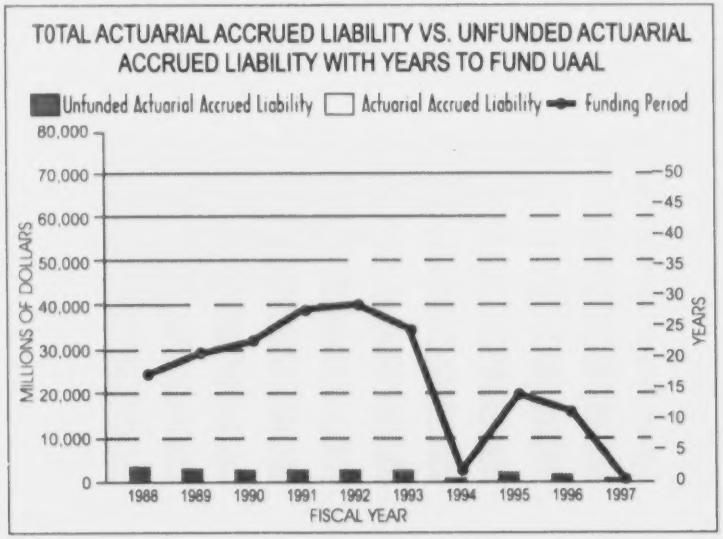
Soundness. During 1997 the fund benefited from strong financial markets that provided opportunities for excellent returns and growth. During the past five years, the investment portfolio's total fund return was 14.3% compounded annually, resulting in an 89% growth in

assets at market value to a total valuation of $62 billion at August 1997. For the 12 months ending September 30, 1997, the total fund return was 25.4%.



Actuarial Condition

The actuarial condition of the trust fund has steadily improved, and at August 1997 was virtually fully funded. For fiscal year 1997, both the Unfunded Actuarial Accrued Liability (UAAL) and the years to amortize UAAL decreased, primarily because of investment income exceeding the impact of the annuity increase approved by the 75th Legislature.



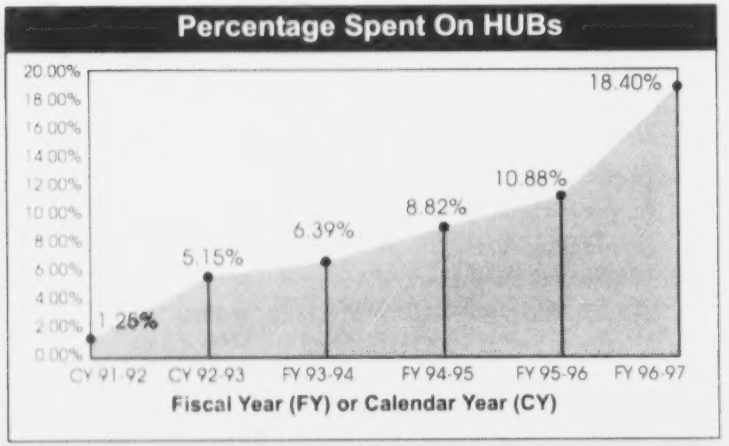
Physical Facilities

TRS owns its office facility located at 1000 Red River Street in Austin. The west building was constructed between 1971-1973 and totals 74,153 square feet. The east building was constructed between 1987-1990 and totals 136,790 square feet.

TRS leases 10,096 square feet of space to the State Board for Educator Certification. Another 3,765 square feet is leased to the Telecommunications Infrastructure Fund Board. As a result, TRS has significantly improved its space utilization.

Utilization of HUBs

TRS's Historically Underutilized Businesses (HUB) participation has steadily increased since calendar year 1991. The system continues to seek opportunities to continue to increase HUB utilization in order to achieve state goals. TRS is committed to increasing contract awards to HUBs. This commitment was demonstrated by the board of trustees, which in FY 1995 established a full-time position to coordinate TRS's HUB purchasing program. Since making that staff allocation, TRS has participated in every Economic Opportunity Forum held by the General Services Commission (GSC).



As an agency headquartered in Austin without field or satellite offices, TRS's purchasing efforts are centralized. However, the HUB coordinator travels to events and forums throughout the state to encourage participation from HUB vendors statewide.

HUB Expenditures as Percentage of Total. For fiscal year 1997, TRS's HUB utilization was 18.4% of its total expenditures.

HUB Expenditures Compared to State's HUB Expenditures. TRS expends funds in four of the state's purchasing categories:

- All special trade construction contract
- Professional services contracts
- All other service contracts
- Commodities contracts

TRS has no expenditures in two of the state's categories, "Heavy construction other than building contracts" and "All other building construction including general contractors and operative building contracts." In the first three categories in which TRS expends funds, the system's percentage of HUB utilization is below the state's goal. In the fourth category, TRS is currently exceeding the state goal.

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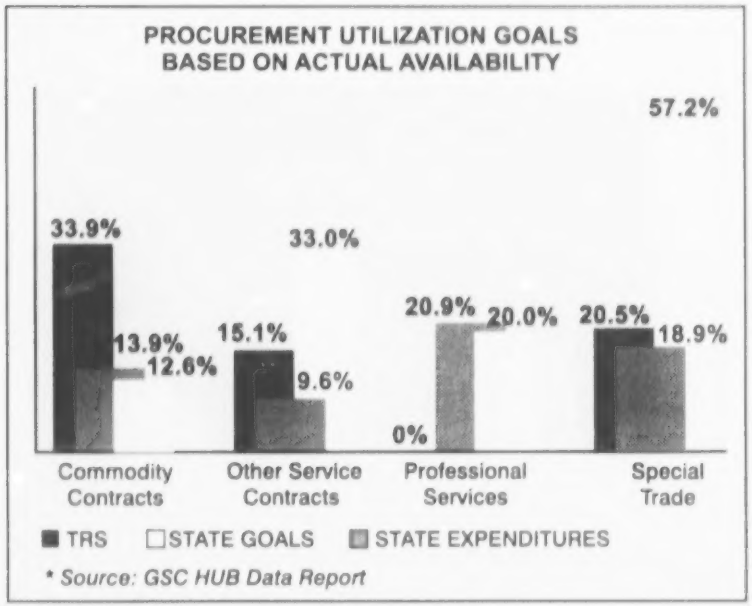
State and TRS HUB Expenditures for First Six Months of FY98



Completed Initiatives for Increased HUB Utilization

TRS routinely contacts HUB vendors for purchases it processes. TRS has also established a policy permitting the award of purchase orders at Economic Opportunity Forums.

- In 1997, TRS participated in 22 GSC-sponsored Economic Opportunity Forums, State Senator Forums, and numerous other minority enterprise development meetings and HUB meetings.
- TRS's participation in such activities resulted in approximately 1,735 contacts with HUB vendors in 1997.
- During the same period, TRS awarded contracts totaling $1.453 million to HUB vendors.
- TRS uses the GSC's centralized master bidders list to identify prospective HUB vendors for its purchases.
- TRS developed a brochure on "Doing Business with TRS—HUB Vendor Guide" which assists HUB vendors with contract opportunities.
- TRS hosted the State HUB Co-Op meeting.
- To enable TRS managers to monitor their use of HUBs, the agency distributes a monthly report indicating each department's total expenditures and the percentage awarded to HUB vendors.
- TRS attorneys continue to participate in the Minority Council Program sponsored by the State Bar of Texas, presenting information and interviewing HUB firms and other minorities and women interested in providing legal services to the agency.
- TRS Investment staff reviewed approximately 35 HUB applications for brokerage services and added seven HUB brokers.
- In the disposition of all owned real estate assets, real estate brokers have been encouraged to--and in most instances have--joint venture with HUB firms.

Future Initiatives to Increase HUB Utilization. TRS is committed to reaching the state's goal for HUB utilization, and will continue to make a good faith effort to do so.

- TRS will continue to encourage and in some instances require prime contractors to use HUB subcontractors.
- TRS will continue to identify non-certified HUB vendors and educate them on state purchasing rules and regulations.
- TRS will continue to assist non-certified HUB vendors in completing the documentation required to become certified.
- TRS will continue to participate in the Economic Opportunity Forums sponsored by the GSC and state senators and representatives, as well as other conferences or conventions that provide contract opportunities and training to HUBs and agency purchasing staff.

Summary of Fiscal Attributes:

- TRS's pension trust is in excellent financial condition. The system is virtually fully funded.
- Funding for the retiree health benefits program will likely be depleted during fiscal year 2001. Continuation of the program beyond that time will require an increase in funding from existing or new sources.
- The performance of TRS investments exceeds the established actuarial rate of return, and the system remains actuarially sound.
- Capital expenditures planned for 1997-1999 relate to TRS's technology infrastructure.

Industry Leader

TRS is recognized as an industry leader in the pension arena. In a recent *Pensions & Investments* article, TRS ranked seventh in asset size among the top 200 pension funds in America. TRS is ranked as the sixth largest public pension fund in the nation.

- TRS investment performance has been quite favorable according to a 1996 Report to the Legislative Audit Committee by Independent Fiduciary Services, Inc.
- Many other funds have visited TRS to learn about process improvements.

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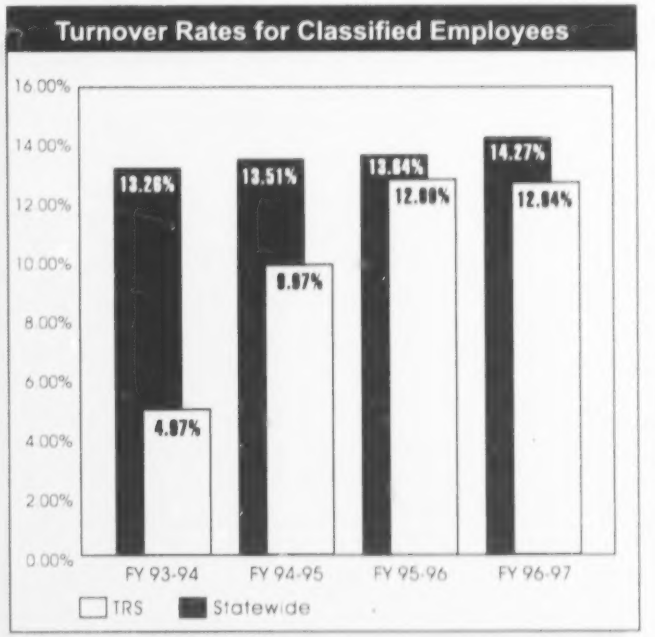
Resources

Because of the scope of operations involved in meeting the needs of TRS members, the agency's staff and technology infrastructure are its most essential resources. TRS operations are information-intensive. To successfully manage and administer its complex programs, TRS must develop both an outstanding workforce and an outstanding technology infrastructure. With a rapidly changing organizational and technological environment comes the need for ongoing staff development initiatives. TRS continues to emphasize effective training to ensure the benefits of technology are fully realized.

TRS Human Assets. TRS maintains effective human resource programs to recruit, select, develop, manage, and retain a diverse and highly qualified staff. Because of the complexity of TRS's operations, hiring and developing the right people for each job is a critical factor in fulfilling the agency mission and continues to be a priority.

Recruitment and Retention. The agency identifies competitive candidates through a comprehensive selection process, which includes team-based interviews. TRS maintains its reputation as a good employer, which helps attract qualified employees.

Although TRS has historically had a turnover rate lower than statewide averages, recent turnover among investment staff and technical professionals is of particular concern to the agency. The unprecedented strength of the Texas economy and resulting low rates of unemployment have created an increasingly competitive market for recruiting qualified employees.



Training and Staff Development. TRS recognizes that developing a competent and confident staff is essential to its success in serving members. To conserve time, TRS applies alternative learning strategies to address learning needs such as: computer-based, self-paced tutorials, self-study resources available for checkout, and short staff meeting or "brown bag" training sessions. On-the-job training is an essential component of TRS's staff development efforts, and many departments have designated employee coaches to help provide job-specific training.

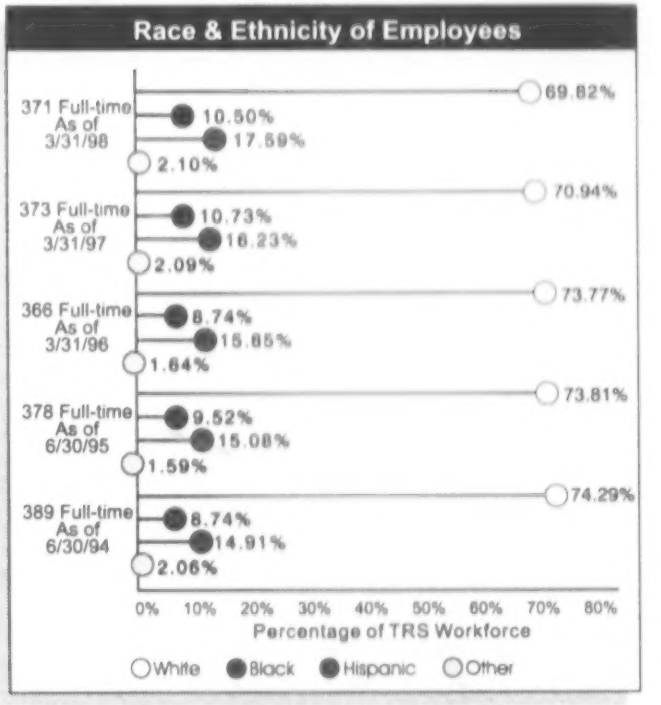
All new employees participate in a thorough New Employee Orientation to give them a firm foundation in their new position. Classroom training is offered in such strategically aligned areas as Team Building, Computer Skills, Presentation Skills, Leadership and Management, Ethics, and Equal Employment Opportunity Practices. Approximately 25 percent of TRS employees have completed a Continuous Improvement class. TRS also offers an Educational Assistance Program to help employees pursuing higher education coursework and degree programs. Such development opportunities are an important aspect of TRS's retention efforts.

The agency has developed training partnerships with several larger state agencies. Generally, external resources are used only if specific training needs cannot be met through our own internal programs or those of other state agencies. Checks and balances are used to control costs and optimize training results.

Performance Management. TRS maintains a comprehensive performance management program to optimize the performance of its staff. Clear performance standards, regular feedback, and developmental planning are key elements of the program. TRS emphasizes a results-oriented management style to encourage employee empowerment and accountability in fulfilling the agency mission.

Compensation and Benefits. In the highly competitive Texas job market, compensation is an increasingly significant issue for all employers. TRS faces a challenge in offering competitive compensation to its professional staff, particularly in the areas of investments and technology. Retaining senior-level investment staff is essential in order to effectively manage risk in administering a fund the size of TRS. Also essential is the ability to attract and retain a highly skilled technical staff. Therefore, TRS is actively working with the State Auditor's Office to address the compensation issues for these professionals. The comprehensive benefit package provided by the state is attractive to employees and applicants, and it is a valued part of TRS's total compensation package.

Size and Composition of Workforce. TRS maintains approximately 400 staff positions for both the pension and insurance funds, which translates to around 380 employees on a full-time equivalent (FTE) basis. The racial and ethnic composition of TRS's workforce approximates that of recent Austin Metropolitan Statistical Area (MSA) reports.



Technological Developments

The effective use of technology plays a vital role in TRS efforts to deliver services and manage investments. Several elements contribute to the challenge TRS faces in maintaining an effective technology infrastructure, including:

- Each year, the system receives more than 4.5 million records and processes an even larger number of time-sensitive transactions.
- The extent of automation required to bridge the gap between staffing levels (which are low, relative to the size of the fund) and service demands.
- The "moving target" of current technology, and the shortened lifecycle of both hardware and software.

TRS strives to stay abreast of emerging technology, participates in state initiatives, and continuously seeks opportunities to gain efficiency through technological enhancements. The Management Information Systems Division plays an integral role in agency planning and management.

Completed Initiatives. The move to local area networks, network- and workstation-based software, and electronic imaging has set the direction of the system's future technology infrastructure. Additional completed initiatives include:

- Implemented an interactive voice-response (IVR) system to expand service delivery for TRS members.
- Improved information resources through installation of local area networks and a uniform and flexible suite of office automation products to support all TRS employees.
- Implemented an electronic document imaging system that allows immediate, simultaneous access to member records by appropriate TRS staff members, improving response to member requests. The imaging system also contributes to improved service delivery by reducing resources dedicated to handling millions of documents annually.
- Developed graphical user interfaces for mainframe legacy systems to provide users with more efficient access to the information they need to perform their jobs.
- Completed implementation of a new investment accounting software package (PAM) to allow daily reconciliations of investment holdings.
- Introduced a TRS Web site which offers access to a wide variety of agency publications and other information of interest to members, employers and the public-at-large.

- Initiated a project to convert all member records in the TRS microfiche library to digital images. This project will provide secure, easy and efficient access to member records and will enable TRS to centralize its Copy of Record for vital member files. Time to complete this process will be reduced from approximately 20 years to just 18 months.

Initiatives Underway to Streamline Business Functions. Significant reengineering, procedural, and organizational projects designed to streamline TRS's business functions will be implemented over a one- to two-year period.

The Benefit Services Transformation (BeST) Project is currently under way to address the following areas:

- Strengthen capabilities of Management Information Services (MIS) to effectively support the TRS organization.
- Select Relational Data Base Management Systems (RDBMS) and develop agencywide data architecture.
- Design new member enrollment and district reporting process.
- Design and build or purchase and implement new district reporting and contribution system.
- Design and build or purchase and implement new member data system.
- Design new Benefit Processing and Disbursement Process.
- Design and build or purchase and implement new Benefit Processing and Disbursements Systems.

Initiatives Underway to Address the Year 2000 Issue. The Year 2000 Compliance Team has completed an assessment of all hardware and software that may be impacted by the Year 2000 date processing problem and is working on remediation and testing. Goals for the project are:

- Ensure that all computer applications program code is remediated and tested by December 31, 1998.
- Ensure that all automated interfaces to/from outside entities are compliant and tested.
- Ensure that existing service levels to our members are maintained through the uninterrupted operation of supporting applications.
- Ensure that existing internal operational levels are maintained through the uninterrupted operation of supporting applications.
- Mitigate the overall risks, including possible litigation issues, of non-compliance.

Future Initiatives to Strengthen TRS Technology Infrastructure. In order for TRS to continue to fulfill its mission in the face of future challenges, certain initiatives to strengthen the agency's technology infrastructure (including its hardware, software, and data) are essential. The most significant group of these initiatives includes:

- Implement fault-tolerant systems (particularly in the network and imaging arena) to ensure the reliability of mission-critical information systems.
- Enhance the imaging system and related technologies.
- Move the imaging system to NT platform.
- Expand training for information resource staff and end-users in the areas of technical skills, change management, and project management.
- Continue enhancements to the telephone center and to the interactive voice-response system.
- Continue enhancements to the TRS Web site to enable improved information flow between TRS and active members, retirees, employers and the public.
- Examine opportunities to simplify related laws, rules, and processes which directly drive resource requirements.

Based on these assessments, it is clear that the legislature, the board of trustees, and TRS members and staff can take pride in the strength and far-reaching positive impact of the fund.

By fulfilling its mission to provide secure retirement and related benefits to Texas public education employees, TRS makes a significant contribution toward the state's vision of ensuring that all Texas schoolchildren receive an excellent education.

TRS Contributions to Texas Priority Goals

State Goal for Education
–Public Schools –Higher Education

TRS Contribution:
TRS directly supports the state's priority goals for education by providing retirement and related benefits, which serve as a recruitment and retention incentive for Texas public educators and staff.

State Goal for Health and Human Services

TRS Contribution:
TRS supports the state's priority goal for health and human services by providing income and health insurance for retired (and some active) Texas public education employees and their families.

State Goal for Economic Development

TRS Contribution:
TRS supports the state's priority goal for economic development by distributing annuity payments totaling over $2 billion to the Texas economy each year.

State Goal for General Government

TRS Contribution:
TRS supports the state's priority goal for general government by operating efficiently, and by focusing on its core competencies.

TRS Core Competencies

- Benefit delivery
  - –Retirement benefits
  - –Health benefits
- Investment management
- Communication with stakeholders
- Workforce development

In the following pages, TRS reviews its accomplishments and commitments for each core competency and for its risk management efforts (which have an impact on all areas of operation).

These commitments identify the focus of TRS's continuous improvement efforts and are the center of the agency's strategic plan.

Retirement Benefits

We are dedicated to professional, accurate, timely, and cost-effective delivery of services and benefits to members and annuitants.

Accomplishments

√ TRS serves a diverse population of approximately 850,000 active and retired members, which includes personnel employed in approximately 1,200 reporting entities throughout the state.

√ TRS processed retirement elections for more than 9,500 members during the year and added approximately 28,500 new members to the active membership group, increasing total population by 4.2%.

√ The 75th Texas Legislature passed the third phase of a CPI catch-up designed to restore purchasing power that annuitants have lost to inflation since their retirement dates. The ad hoc increase was effective September 1, 1997, affecting more than 150,000 members. TRS was able to fund this increase solely through investment income, with no need for additional state funds, and processed all increases in a timely manner.

√ The 1995 annuity increase allowed for three methods of calculating the ad hoc amount — (1) a flat percentage established for each retirement year, (2) an assumption of the minimum teacher salary to be included in the calculation, and (3) according to 1/1/95 formula based on retiree's actual salary or actuarially determined salary if actual records were not available. The retiree was to receive the higher of the amounts produced under the three scenarios. Retirees were also granted the option to request that their annuity be recalculated based on actual salaries. Upon discovering that the actuarial factor mentioned in method (3) above produced varying results, TRS elected to retrieve actual salary histories for about 33,000 annuitants who had retired before 9/1/81 and calculate their 1995 ad hoc increase again. As a result, approximately 17,000 annuities were adjusted again, new monthly amounts became effective 3/1/98, and lump sum payments were issued for the total underpayment. This raised monthly annuity distributions by about $850,000, and the total of lump sum back payments approached $25 million. These adjustments were funded through investment income.

√ A Deferred Retirement Option Plan (DROP) was authorized by the 75th Legislature. DROP provides an opportunity for active TRS members with at least 25 years of service to build a lump sum benefit that is distributable upon retirement in addition to the monthly annuity. The option appears to be a popular one, with almost 2,000 members electing to partici-

pate during its first six months of operation. Another 2,800 eligible members have received information about DROP.

√ Through its toll-free Information Center, TRS received 365,323 calls from members and retirees in fiscal year 1997, up 18.9% from the previous year. Although we met face-to-face in our offices with 7,880 members, an increase of 20.8% from 1996, we counseled with 12.8% fewer members during visits to 32 field locations across the state.

√ Continuing to develop alternate technologies for communicating with our individual members, TRS introduced an interactive voice-response system called InfoLine with two important features: (1) an automated system for providing general information and (2) a personal identification number system so properly identified members may access specific information about their TRS accounts.

√ Communication with groups of members was recently enhanced by the first ever videoconference conducted among four campuses of a state university.

√ A recent member satisfaction survey indicates that members and retirees have an overall positive rating for the system's operations and service delivery.

Commitments

We will:

√ Utilize performance standards and an effective performance measurement program to enhance the consistent delivery of quality service to our membership.

√ Use technology and communication tools to enhance our delivery system capacity in order to meet the increased demands of a growing membership. We will implement cost-effective technology tools to educate our members about their retirement options and to increase their access to information about their benefits.

√ Extend our commitment to excellence and flexibility in delivering retirement benefits, and strive to continuously improve our service.

√ Continue to survey similar benefit providers in both the public and private sectors to identify practices that offer potential improvements for TRS.

√ Continue to provide superior training to our employees, equipping them to better serve our members.

√ Conduct customer service surveys to ensure continued high quality service to our members.

√ Improve performance reporting to ensure that stakeholders are informed of fund operations and results.

√ Allocate appropriated resources to their most productive, mission-oriented uses.

TRS-Care Health Benefits Program

We are dedicated to professional, accurate, timely, and cost-effective delivery of services to plan participants.

Accomplishments

- √ TRS administers TRS-Care, which currently provides medical and pharmacy benefits for approximately 131,000 retired public school employees and their dependents.
- √ Effective fund management and administration have extended the initial funding allocation for TRS-Care almost six years beyond original projections.
- √ As a result of a comprehensive study recommended by the Legislative Audit Committee, TRS-Care has become self-insured and begun strengthening managed care elements of the program.
- √ Amendments to TRS-Care law permitted the plan to maintain participant contributions at a constant level for the past three years, despite increased cost for delivery of health care services.
- √ TRS-Care successfully negotiated separate contracts for medical claims administration and pharmacy benefit management, resulting in significant projected savings to the TRS-Care fund and extending its period of anticipated solvency.
- √ TRS-Care introduced a Medicare HMO pilot program for the Dallas-Fort Worth region to become effective 9/1/98.
- √ TRS-Care was expanded to offer a separate plan of health care coverage for active employees; now covering three school districts that elected to participate on behalf of approximately 215 employees plus their dependents.

Commitments

We will:

- √ Effectively oversee the administration of the insurance fund to ensure that quality benefits are provided at a competitive cost.
- √ Continue to compare our plans with similar plans, including analyses of comparative costs and premiums.
- √ Conduct customer service surveys to ensure continued high quality service to plan participants.
- √ Identify specific areas where performance can be improved through changes in plan design and program administration.
- √ Develop and implement a methodology to provide comprehensive data about health care plans offered to active public school employees through local school districts, for comparison to the basic plan provided state employees.
- √ Improve performance reporting to ensure that stakeholders are informed of fund operations and results.
- √ Continue to educate plan participants in collaboration with the claims administrator and pharmacy benefit manager to optimize benefit participation.
- √ Continue to work with the legislature in the effort to resolve funding requirements of TRS-Care.

Investments

We are dedicated to the prudent management of assets held in trust for our members and their beneficiaries, seeking a long-term investment return that exceeds the established actuarial rate of return.

Accomplishments

√ For the previous five- and 10-year periods ending September 30, 1997, the total time-weighted return on TRS investments was 14.3% and 12.8%, respectively. This performance substantially exceeds our actuarially targeted rate of return of 8%.

√ Investment income and realized market gains provided 85.8% of additions to net plan assets in fiscal year 1997.

√ With a prudent mix of asset classes and investment risk controls, internal management has achieved outstanding results.

√ Established new equity portfolios to more fully diversify holdings across firm capitalization ranges.

√ TRS implemented the use of quantitative software, new portfolio accounting software, internal loan servicing software, and additional real estate software, resulting in improved accounting and reporting functions.

√ TRS completed a major review and modification of the Investment Policy.

√ TRS has continued progress toward disposition of owned real estate, which was originally acquired due to defaulted mortgages. Of 24 properties taken in this manner, all but five have been sold.

Commitments

We will:

√ Maintain a focus on optimizing prudent investment management effectiveness.

√ Continue to analyze and adjust our asset allocation to achieve optimal returns within prudent levels of risk.

√ Continue to survey recognized leaders in fund management to ensure our practices are among the best.

√ Act on recommendations resulting from biennial evaluations of investment practices and performance.

Risk Management

We are dedicated to effectively controlling the risks inherent in managing the resources of the system.

Accomplishments

- √ Began a benefit systems reengineering project (BeST) which will significantly improve TRS's ability to deliver benefits.
- √ Completed conversion to new investment accounting system (PAM).
- √ Staffed project team to address all Year 2000 issues.
- √ Created an internal committee and developed a comprehensive risk management manual.
- √ Conducted agencywide training on information security and fraud awareness.
- √ Received recognition from the State Office of Risk Management, the Safety Silver Award, for improvements to workplace safety.

Commitments

We will:

- √ Strengthen our commitment to continuous improvement through board and employee training and method-implementation efforts.
- √ Consistently apply performance measures and benchmarking techniques to ensure quality performance of both internal and external resources.
- √ Continually evaluate our security policies agencywide to ensure adequate protections are in place to safeguard out technological, capital, and human resources.
- √ Implement new benefit systems and reengineer existing processes.
- √ Ensure Year 2000 compliance.

Communication

Effective communication is the key to connecting all TRS stakeholders. We use many avenues of communication to learn from one another, share knowledge, improve decision-making, and build ever-stronger commitment to achieving our mission.

Accomplishments

√ TRS publications provided information about laws enacted by the 75th Legislature, retirement and insurance trends, and dates of the system's activities.

√ TRS installed an automated voice-response system to complement the TRS information call center and to better serve members' benefit processing needs with toll-free access.

√ Hours of operation for the information call center were expanded for member convenience.

√ The TRS comprehensive annual financial report earned a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) each year for the past seven years.

√ TRS conducted a member satisfaction survey to gauge active member and retiree perceptions of TRS services.

√ A TRS Web site was established to provide additional access to agency publications and general information. The site also provides assistance to district reporting officials in completing and filing various reports.

Commitments

We will:

√ Strive to improve relations and communication with our internal and external stakeholders.

√ Assess and adjust our communication efforts to ensure they anticipate and address stakeholder information needs.

√ Position ourselves to collaborate with state leadership in fulfilling our mission by providing prompt, accurate information needed for successful planning and decision-making.

√ Form effective partnerships with other state agencies in order to better serve our respective constituencies.

Employees

We support the employees of TRS as they work to achieve their highest potential. We recognize that TRS achieves its mission through their individual success.

Accomplishments

√ TRS has initiated a number of efforts designed to enhance internal communication and encourage the open exchange of information, including:

- Informal meetings of the executive director with small groups of employees.
- A bimonthly employee newsletter, *The TRS Chalkboard*.
- A revised employee handbook with an easy-to-use format.

√ TRS participated in the Survey of Organizational Excellence in 1996 and 1998 to gather employees' perspectives on many issues impacting the success of TRS as a provider of retirement benefits and as an employer. Changes were implemented in response to the 1996 survey, and 1998 results indicate that employees perceive improvement in all major survey elements.

√ TRS uses a successful recognition process to reward and encourage outstanding contributions by employees. In addition, TRS updated its program recognizing employees' length of service to the agency. These are some of the methods TRS uses to express appreciation of employees' efforts and dedication.

√ TRS implemented an employee assistance program in late 1996 to support employees in managing problems that affect their work performance.

Commitments

We will:

√ Continue to provide training related to a positive work environment, including EEO practices, ethics and sexual harassment prevention.

√ Participate in the state's initiative to develop an effective compensation program in order to retain and motivate a qualified workforce.

√ Continue to train our employees in changing technologies, leadership, team building, personal accountability, and continuous improvement processes.

√ Review and revise the agency's Affirmative Action Plan.

√ Hold employees accountable for their actions and for the results needed to achieve our mission.

TRS Strategic Goals

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TRS Strategic Goals*

GOAL: To administer the system as an employee benefit trust

OBJECTIVE: To manage an actuarially sound retirement system that maintains an amortization period of less than 30 years and generates a five-year average investment return of at least 8% each year of the five-year planning period

Outcome Measures:

- Percent of TRS retirees rating TRS member services as satisfactory or better
- Number of years to amortize the unfunded actuarial accrued liability
- Five-year average time-weighted rate of return
- TRS annual operating expense per active and retired member

Strategy: Maintain an actuarially sound retirement system with a funding period under 30.9 years

Explanatory/Input Measures:

- Average annual TRS annuity
- Number of TRS annuitants
- Number of TRS active members

Strategy: Provide services to members, manage investments, and administer TRS retirement fund

Output Measures:

- Number of TRS benefit applications processed
- Number of member accounts serviced

Efficiency Measure:

- Percent of TRS retirees who receive their first annuity within 31 days of their effective retirement date

** Note: Includes revisions submitted and preliminarily approved. Notification of final approval by the Governor's Office of Budget and Planning and the Legislative Budget Board is expected June 1998.*

Strategy: Provide an Optional Retirement Program for faculty and certain administrative staff at public institutions of higher education

Explanatory/Input Measures:
- Number of ORP Vendors
- Number of ORP participants

OBJECTIVE: To provide a financially solvent group insurance program for public school employees and retirees with the result that the group insurance fund has a positive balance and that the annual cost increases for retirees are reasonable each year of the five-year planning period

Outcome Measures:
- Percent of TRS-Care participants rating TRS-Care services as satisfactory or better
- Annual percent change in monthly retiree contributions for optional TRS-Care coverage
- Year-end TRS-Care fund balance

Strategy: Provide group insurance benefits to public school employees and retirees by monitoring the performance of contracted benefit providers, communicating insurance plan features to active and retired public school employees, and resolving benefit disputes

Output Measures:
- Network physician office visits as a percent of total physician office visits
- Dollar amount of utilization review savings
- Dollar amount of participating network savings

Efficiency Measure:

- Percent of claims adjudicated within 14 days of receipt

Explanatory/Input Measures:

- Number of TRS members participating in TRS-Care
- Number of total participants in TRS-Care

GOAL: TRS will establish and carry out policies governing purchasing contracts that foster meaningful and substantive inclusion of historically underutilized businesses

OBJECTIVE: To include historically underutilized businesses (HUBs) in at least 20 percent of the total value of contracts and subcontracts awarded annually by the agency in purchasing contracts by fiscal year 1999

Outcome Measures:

- Percent of total dollar value of purchasing contracts and subcontracts awarded to HUBs

Strategy: Develop and implement a plan for increasing the use of historically underutilized businesses through purchasing contracts and subcontracts

Output Measures:

- Number of HUB contractors and subcontractors contacted for bid proposals
- Number of HUB contracts and subcontracts awarded
- Dollar value of HUB contracts and subcontracts awarded

Appendices

Strategic Planning Steering Committee

Charles Dunlap, Executive Director

Ronnie Jung, Chief Financial Officer
Norma E. Koontz, Chief Benefit Officer
Marty Walker, Chief Investment Officer
Bill Baker, General Counsel
Shari Cooper, Director of Human Resources
Laurie Dotter, Director of Real Estate
Pattie Featherston, Director of Governmental Relations
Wayne Fickel, Controller
Howard Goldman, Director of Information Services
Linda Henry, Director of Internal Audit

TRS Strategic Planning Process

- A comprehensive process of soliciting employee input was followed during development of the 1997-2001 plan, *A New Beginning*. Input acquired at that time has continued to serve as a valuable foundation for the 1999-2003 plan, *Improving Service Into the 21st Century*.
- In preparation for the 1999-2003 strategic plan, discussions were held at both TRS Executive Council and Management Team meetings regarding development of the new plan and TRS's desire and plan to incorporate employee suggestions.
- A renewed effort was launched at the departmental level to convey agency goals for developing an updated strategic plan. All employees were encouraged to provide both updated information as well as new ideas for inclusion in the plan.
- As staff revisions transformed the early foundation into the new strategic plan, drafts were reviewed and edited extensively not only by management and the Strategic Planning Steering Committee but also by the technical staff involved in each area.
- Information learned from the most recent Survey on Organizational Excellence (employee survey) was utilized in development and incorporated in the new plan.
- Feedback from active and retired members (1997 Member Satisfaction Survey) was also incorporated during the planning process.
- Accomplishments, especially those attained since the submission of the last strategic plan, as well as new commitments have been highlighted in the new plan specifically with regard to the TRS core competencies.

Projections of Outcomes for Five-Year Planning Horizon

	Projections				
Outcome Measures:	**1999**	**2000**	**2001**	**2002**	**2003**
Percent of TRS retirees rating TRS member services as satisfactory or better	90%	90%	90%	90%	90%
Number of years to amortize the unfunded actuarial accrued liability	<31 years	<31 years	<31 years	<31 years	<31 years
Five-year average time-weighted rate of return	8%	8%	8%	8%	8%
TRS annual operating expense per active and retired member	$27	$35	$35	$35	$35
Output Measures:	**1999**	**2000**	**2001**	**2002**	**2003**
Number of TRS benefit applications processed	56,000	57,000	58,000	59,000	60,000
Number of member accounts serviced	8,792,000	9,109,000	9,419,000	9,720,000	10,012,000
Efficiency Measure:	**1999**	**2000**	**2001**	**2002**	**2003**
Percent of TRS retirees receiving their first annuity within 31 days	90%	90%	90%	95%	95%

Projections of Outcomes for Five-Year Planning Horizon

	Projections				
Outcome Measures:	**1999**	**2000**	**2001**	**2002**	**2003**
Percent of TRS-Care participants rating TRS-Care services as satisfactory or better	90%	90%	90%	90%	90%
Annual percent change in monthly retiree contributions for optional TRS-Care coverage	0%	5-10%	0%	5-10%	0%
Year-end TRS-Care fund balance	$125.7 million	$47 million	0	0	0
Output Measures:	**1999**	**2000**	**2001**	**2002**	**2003**
Network physician office visits as a percent of total physician office visits	65%	65%	65%	65%	65%
Dollar amount of utilization review savings	$4 million	$3.7 million	$3.4 million	$3.1 million	$2.8 million
Dollar amount of participating network savings	$13.5 million	$14 million	$14.6 million	$15.2 million	$15.8 million
Efficiency Measure:	**1999**	**2000**	**2001**	**2002**	**2003**
Percent of claims adjudicated within 14 days of receipt	90%	90%	90%	90%	90%

Performance Measure Definitions*

GOAL: To administer the system as an employee benefit trust.

A.1 **Objective:** To manage an actuarially sound retirement system that maintains an amortization period of less than 30 years and generates a five-year average investment return of at least 8 percent each year of the five-year planning period.

Outcome Measures:

1.1 Statement: Percent of TRS Retirees Rating TRS Member Services as Satisfactory or Better
Definition: This measure is intended to show the level of satisfaction with retirement system services provided by TRS to retirees. This is important in determining the quality of service to retirees. Information for this measure is gathered from satisfaction surveys mailed to a statistical sample of retirees and results are based on responses to these surveys. TRS cannot control the number of responses to these surveys. Noncumulative.

1.2 Statement: Number of Years to Amortize the Unfunded Actuarial Accrued Liability
Definition: This measure is intended to show how many years are required to fund the unfunded actuarial liability of the system. This is important because there are limitations placed on the length of time over which the UAAL can be funded by both the Governmental Accounting Standards Board and the State Legislature. Information is collected from TRS active and retiree member records and forwarded to our consulting actuary who performs an analysis of the data and subjects it to various actuarial assumptions, calculates actuarial liability, and determines the period required to amortize the liability based on certain actuarial assumptions. Noncumulative.

* *Note: Includes revisions submitted and preliminarily approved. Notification of final approval by the Governor's Office of Budget and Planning and the Legislative Budget Board is expected June, 1998.*

1.3 Statement: Five-Year Average Time-Weighted Rate of Return
Definition: This measure is intended to show investment returns calculated on a time-weighted basis for all assets and reflects income and realized/unrealized price changes. Investment rate of return is an important factor in determining the ability of the fund to meet its funding obligations. Reported returns are calculated by an independent consulting firm based on data provided to them from TRS accounting records. Noncumulative.

1.4 Statement: TRS Annual Operating Expenses per Active and Retired Member
Definition: This measure is intended to show the annual per member (active and retired) cost to operate the retirement system. This calculation provides a method to compare operating efficiencies from year-to-year. The measure is calculated by dividing TRS (GAAP basis) operating expenses, as determined for the annual financial report, by the total number of active members from program SS7090 and annuitants from program AP3270 as of August 31. The numbers required to calculate the final cost per member are not available in time to meet the deadline for submitting this measure so preliminary numbers must be used. Final data will be provided when available. Noncumulative.

Strategy: Maintain an actuarially sound retirement system with a funding period under 30.9 years. Estimated.

Explanatory or Input Measures:

Statement: Average Annual TRS Annuity
Definition: This measure is intended to provide a year-to-year comparison of the average TRS annuity. Using data from TRS information systems, the average dollar amount of standard retirement annuities for service retirees with 20 or more years of service credit is calculated for each year. Noncumulative.

Statement: Number of TRS Annuitants
Definition: This measure is intended to provide a year-to-year comparison of annuitants to reflect growth. This count is taken from TRS information systems AP3270 for the

August 31 annuity payroll. Persons receiving payments from more than one account will be counted as one. Noncumulative.

Statement: Number of TRS Active Members
Definition: This measure is intended to provide a year-to-year comparison of active TRS members at the end of the reporting period. Member count is taken from Table 2 of the annual actuarial valuation report and includes total active members and inactive members with a deferred benefit. Noncumulative.

Strategy: Provide services to members, manage investments, and administer TRS retirement fund.

Output Measures:

Statement: Number of TRS Benefit Applications Processed
Definition: This measure is intended to provide a year-to-year comparison of benefit claim applications processed by TRS. Information is collected from TRS computer applications, RF3020 and DC3100, which reflect monthly benefit application processing figures.

Statement: Number of Member Accounts Serviced
Definition: This measure is intended to show the transaction activity for the number of member deposits applied to individual member accounts each year. Transaction numbers are accumulated from daily clearance reports (program number MR 1110) and compiled into a monthly Receipt and Processing Analysis Report. Noncumulative.

Efficiency Measure:

Statement: Percent of TRS Retirees Who Receive Their First Annuity within 31 Days of Their Effective Retirement Date
Definition: Using data from TRS information systems, all applicable transactions will be searched to determine the percentage that comply with performance targets. Noncumulative.

Strategy: Provide an Optional Retirement Program for faculty and certain administrative staff at public institutions of higher education. Estimated.

Explanatory or Input Measures:

Statement: Number of ORP Vendors
Statement: Number of ORP Participants
Definition: TRS has no statutory responsibility with respect to managing the optional retirement program.

A.2 **Objective:** To provide a financially solvent group insurance program for public school employees and retirees with the result that the group insurance fund has a positive balance and that the annual cost increases for retirees are reasonable each year of the five-year planning period.

Outcome Measures:

2.1 Statement: Percent of TRS-Care Participants Rating TRS-Care Services as Satisfactory or Better
Definition: This measure is intended to indicate the level of satisfaction with TRS-Care services among participants. This measure is calculated from ratings given by members responding to a satisfaction survey. Noncumulative.

2.2 Statement: Annual Percent Change in Monthly Retiree Contributions for Optional TRS-Care Coverage
Definition: This measure is intended to reflect the rate of change from year-to-year in the contributions by plan participants for optional coverage. The measure is calculated based on changes from the prior year to the current year. Noncumulative.

2.3 Statement: Year-End TRS-Care Fund Balance (in Millions)
Definition: This measure is intended to show the year-end balance of funds available in the retiree health benefits program fund thus allowing a year-to-year comparison of increase or decrease in funds. This balance is taken from the annual financial statements for the Public School Employees Group Insurance Fund-Retired. Non-cumulative.

Strategy: Provide group insurance benefits to public school employees and retirees by monitoring the performance of contracted benefit providers, communicating insurance plan features to active and retired public school employees, and resolving benefit disputes. Estimated.

Output Measures:

Statement: Network Physician Office Visits as a Percent of Total Physician Office Visits
Definition: This measure is intended to reflect usage of network physicians v. non-network physicians. The measure is calculated by the program's claims administrator based on claims data. Noncumulative.

Statement: Dollar Amount of Utilization Review Savings
Definition: This measure is intended to reflect the estimated dollar savings resulting from utilization review. This is a weighted average estimate reported by the program's claims administrator. This measure indicates the weighted average savings estimated from individual case management, out-patient and in-patient pre-certification, hospital bill audit program, durable medical equipment, surgical and other profiles. Cumulative.

Statement: Dollar Amount of Participating Network Savings
Definition: This amount is an estimate reported by the program's claims administrator. This measure indicates the savings estimated from reasonable and customary charges through the discounted network participating fees.

Efficiency Measure:

Statement: Percent of Claims Adjudicated within 14 Days of Receipt
Definition: This measure is intended to reflect the efficiency of claims settlement. Using information supplied by the program's claims administrator the number of claims adjudicated within 14 days of receipt is divided by the total number of claims received in a particular period. Noncumulative.

Explanatory or Input Measures:

Statement: Number of TRS Members Participating in TRS-Care
Definition: This measure is intended to show the number of members participating in the health insurance program at August 31. It does not include dependents or beneficiaries of retirees. Noncumulative.

Statement: Number of Total Participants in TRS-Care
Definition: This measure is intended to show the total number of participants in the health insurance program at August 31, including retirees, dependents and beneficiaries of retirees. Noncumulative.

Although not required, state guidelines for preparation of the 1999-2003 Strategic Plan requested that agencies include summarized findings regarding agency participation in the Survey of Organizational Excellence.

Results of Survey of Organizational Excellence

In February 1998, TRS employees received the confidential *Survey of Organizational Excellence*, an organizational survey administered for state agencies each biennium by the School of Social Work at The University of Texas at Austin. This was the second time TRS participated in the survey. Data from the survey reflect employee perceptions of many aspects of factors known to influence organizational effectiveness.

Fifty-four percent of TRS employees (199) responded to the 1998 survey compared with 51 percent in 1996. This response rate indicates that many TRS employees are committed to improving their workplace.

The 1998 survey results suggest that, while some employee concerns remain, employee perceptions of many key issues have improved. Some of the statements for which employee ratings showed the greatest increase were:

- *Our goals are consistently met or exceeded.*
- *Every employee is valued.*
- *We work well with our governing bodies.*
- *There is a basic trust between employees and management.*
- *Employees feel that their efforts count.*
- *Training is made available in personal growth and development.*
- *Alternative work schedules are offered to employees.*

Employee-identified areas of strength included: Customer Orientation, Immediate Work Group Environment, Resources/Physical Accommodations, and Integrity/Fairness/Ethical Behaviors. Areas of concern included: Empowerment, Goal Achievement, and Salaries.

After the 1996 survey, employees were involved in generating ideas for improvement, and a number of their suggestions were implemented. TRS will use a similar process for the 1998 survey, knowing the true benefits of employee feedback come from acting on it.